

Auditor-General of South Africa

# Imbabazane Municipality - Audit report 2014-15

# **Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the Council on Imbabazane Municipality**

## **Report on the financial statements**

### **Introduction**

1. I have audited the financial statements of the Imbabazane Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-general's responsibility**

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Imbabazane municipality as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

## **Emphasis of matters**

I draw attention to the matter below. My opinion is not modified in respect of this matter.

## **Restatement of corresponding figures**

7. As disclosed in note 30 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of errors discovered during the 2015 financial year in the financial statements of the Imbabazane Local Municipality at, and for the year ended, 30 June 2014.

## **Additional matter**

8. I draw attention to the matter below. My opinion is not modified in respect of this matter.

## **Unaudited supplementary schedules**

9. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

## **Report on other legal and regulatory requirements**

10. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected development priority presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

## **Predetermined objectives**

11. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the development objective: Basic service delivery presented in the annual performance report of the municipality for the year ended 30 June 2015.
12. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

13. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development objective. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information*.
14. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
15. I did not identify any material findings on the usefulness and reliability of the reported performance information for the development objective: Basic service delivery.

## **Additional matters**

16. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected development priority, I draw attention to the following matters:

## **Achievement of planned targets**

17. Refer to the annual performance report on pages x to x and x to x for information on the achievement of the planned targets for the year.

## **Unaudited supplementary schedules**

18. The supplementary information set out on pages xx to xx does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report thereon.

## **Compliance with legislation**

19. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

## **Annual financial statements**

20. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of work in progress identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided, resulting in the financial statements receiving an unqualified audit opinion.

## **Internal control**

21. I considered internal control relevant to my audit of the financial statements, performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

## Leadership

22. Management did not implement adequate oversight and review procedures in ensuring that effective measures were taken to address previous findings on adjustments to financial statements. This was due to slow responses by management caused by suspensions of senior management.

## Other reports

### Investigations

23. An independent firm is conducting an investigation at the request of the municipality council relating to possible disciplinary processes against the municipal manager and other senior managers regarding allegations of illegal staff salary increases from February 2015.

*Auditor-General*

Pietermaritzburg

30 November 2015



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SOUTH AFRICA

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